

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: September 8, 2003
To: Supervisor Lee Holloway, Chairman, Milwaukee County Board of Supervisors
From: Jerome J. Heer, Director of Audits
Subject: Increased Purchasing Limit Changes/Monitoring Report

Background

As part of the 2003 adopted budget, the Department of Audit was directed to monitor the effects of the increased purchasing limit changes Procurement Division is currently using and report bi-annually to the County Board of Supervisors.

Recent purchasing limit changes to the four purchasing categories are:

| <u>Purchases</u> | <u>Previous Limits</u> | <u>New Limits</u> |
|------------------|------------------------|-------------------|
| Discretionary | \$-0- to \$5,000 | \$-0- to \$10,000 |
| Open Market | 5,001 to 14,999 | 10,001 to 24,999 |
| Informal | 15,000 to 24,999 | 25,000 to 49,999 |
| Formal | 25,000 or more | 50,000 or more |

The four purchasing categories used by Procurement Division are defined as:

Discretionary – made at the discretion of the buyer. Buyer must document effort to award to disadvantaged business enterprise (DBE).

Open Market – made by solicitation of three quotations documented by the buyer. Buyer must document effort to solicit DBEs.

Informal – shall be solicited from all known vendors for the item(s) identified on the “Vendor List” maintained by the Procurement Division. The method of procurement shall be via the sealed bidding process. Buyer must document effort to solicit DBEs.

Formal – shall have sealed bids or request for proposal solicited by public notice posted on the Milwaukee County, Procurement Division web-site at least two weeks prior to bid/proposal receipt. Official notice shall also be posted on the announcement board in the Procurement Division. The Procurement Division shall solicit from all know vendors for the commodities being procured. DBEs will be allowed the maximum opportunity for participation.

Analysis and Discussion

The intent of increasing the purchasing dollar limits in the four categories was to help reduce costs and enhance the timeliness/efficiency of procuring various items. For example, by increasing the limits of discretionary purchases, which are made at the sole discretion of the buyer, a greater number purchases can be made more quickly with less paperwork. In addition, Procurement Division management indicated that the increased limits in the discretionary and open market categories provides more opportunities for minority/women business enterprise (M/WBE) vendors to secure business with the County.

To assist in our analysis of the effects of increasing the purchasing limits, **Table 1** shows a comparison of purchases made in the first six months of 2003 as categorized under the previous purchasing dollar limits versus categorized according to the new limits.

| Table 1 Comparison of Purchases Under the Previous Limits Versus Purchases With the New Limits For Six-Month Period Ending 6/30/03 | | | | | | |
|--|-----------------------|------------------|---------------|-------------------------|--------------------|---------------|
| <u>Category</u> | <u>Previous Count</u> | <u>New Count</u> | <u>Change</u> | <u>Previous Amounts</u> | <u>New Amounts</u> | <u>Change</u> |
| Discretionary | 705 | 851 | 146 | \$1.6m | 2.6m | \$1.0m |
| Open Market | 187 | 84 | <103> | 1.6m | 1.4m | <0.2m> |
| Informal | 43 | 27 | <16> | 0.8m | 1.0m | 0.2 m |
| Formal | 64 | 37 | <27> | 6.5m | 5.5m | <1.0m> |
| Source: Accounts Payable file of paid purchase orders. | | | | | | |

As **Table 1** demonstrates, increasing the purchasing limits appears to have achieved its intended purpose by generally shifting more purchases into the first purchasing category, which requires less documentation and paperwork. Purchases that would have previously required documentation of three quotations (Open) or sealed bids (Informal) are now being processed at the discretion of the buyers. As a result, the buyer can exercise their professional judgement/discretion and thus speed up the entire purchasing process.

We analyzed the efficiencies and/or the improvements in the timeliness of the procurement process. **Table 2** compares the efficiency percentage achieved for 2003 of discretionary and open category purchases with their respective outcome targets.

| Table 2 Timeliness of Processing Discretionary and Open Market Purchases For the Six-Month Period Ending 6/30/03 | | | |
|--|----------------------------|-----------------------|-------------------------|
| <u>Category</u> | <u>Criteria</u> | <u>Outcome Target</u> | <u>Outcome Achieved</u> |
| Discretionary | Process in 7 days or less | 85% | 91% |
| Open | Process in 10 days or less | 80% | 85% |
| Source: Procurement Division files. | | | |

As **Table 2** indicates, Procurement Division has exceeded their efficiency standards for the first six months of 2003.

Based on this analysis, increasing purchasing limits has improved the timeliness of the procurement process. However, it should also be noted that as **Table 1** indicates, the change in purchasing limits has shifted over \$1 million dollars of purchases into the discretionary purchasing category. By definition, discretionary purchases have the lowest level of controls. As a result, the associated risk factor for potential abuse has also increased.

This high risk factor associated with discretionary category purchases is further impacted by a recent procedural change within the Procurement Division. With the change, the Purchasing Administrator no longer signs off on all purchases. The signing authority has been delegated to the respective Procurement Buyer. Previously, the signing of purchase orders by the Administrator provided a segregation of duties, which is always considered a strong control feature in a system of checks and balances. This separate signature control takes on added importance with the increased purchasing limits. Without the Administrator's review and signing, buyers have the sole responsibility and authority to make discretionary purchases up to \$10,000 and also authorize and approve that same purchase. This is an undesirable concentration of duties and responsibilities in one position.

Finally, in reviewing purchasing information to determine the effects of the increased purchasing limits, we found that Procurement Division's methods for tracking purchasing information and reporting results needs improvement. Specifically, we identified mathematical errors and other inconsistencies in Procurement Division's formal information tracking system. For example, purchasing information statistics reported for DBE purchases and confirming purchase orders were not accurately calculated and/or the wrong information was used to determine results. Without accurate tabulated results, appropriate management decisions cannot be made.

Summary and Recommendations

Based on our analysis of purchases for the first six months of 2003, the intended impact of increasing purchasing limits has resulted in improved efficiencies in the timeliness of the Division's procurement process. Those improved efficiencies, however, have been achieved at a cost of an increased risk factor associated with discretionary purchases. Delegating purchase order signature authority to individual buyers has also heightened this risk exposure by not providing an adequate level of segregation of duties. Also, methods used to track purchasing statistics must be accurate in order to make appropriate management decisions.

Therefore, we recommend the Department of Administrative Services/Procurement Division:

- 1. Either revert back to its long-standing practice of having all purchases reviewed and approved by the Purchasing Administrator or her management-level designee, or develop a methodology to spot-check each buyer's purchasing decisions on a regular basis.*
- 2. Ensure that statistics reported regarding procurement tracking information are calculated accurately and properly documented.*

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A response to the recommendations from the Procurement Division is attached. The Department of Audit will provide a final monitoring report sometime in 2004 based on all 2003 Procurement Division purchasing activity. Please refer this report to the Committee on Finance and Audit.

A handwritten signature in cursive script, reading "Jerome J. Heer".

Jerome J. Heer

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors
Linda Seemeyer, Director, Department of Administrative Services
Pinkey Buford, Purchasing Administrator, Department of Administrative Services
Terrence Cooley, County Board Chief of Staff
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Lauri J. Henning, Chief Committee Clerk, County Board Staff